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UNCLAS SECTION 01 OF 02 BOGOTA 008906

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [FAIR CO](#)

SUBJECT: CONCERNS FROM THE U.S. FLAG CARRIERS

REF: A. REF A: BOGOTA 8026

[1](#)B. REF B: BOGOTA 8515

Sensitive but unclassified -- please protect accordingly.

[1](#)1. (SBU) Summary. At the midyear point, the three U.S. flag airlines, American, Continental, and Delta, all report higher earnings in 2004 than in 2003. All three managers voiced concerns over the civil aviation authority, Aeronautica Civil (CAA), the association of Colombian travel agencies (ANATO), and the Avianca-Synergy deal. End Summary.

Sales Increase But Problems Remain

[1](#)2. (U) 2004 is shaping up to be a good year for U.S. flag carriers, with sales revenues up from five to ten percent over 2003 levels. Local station managers attributed this increase to sustained economic growth, an increase in foreign investment, a rise in corporate, leisure and student travel, and the free trade negotiations. The ramp up to the free trade negotiations, as well as the negotiations themselves, have significantly increased business travel not only from Colombia to the U.S., but also from the U.S. to Colombia. American Airlines' Manager informed Econoff that the increase in business travel has allowed American to fly five times per week to Medellin and directly compete against Avianca. However, the airlines still face restrictions and expensive tax legislation, high travel agency commissions, a new administrative fee - (Ref B), and high fuel prices.

CAA and the Airlines

[1](#)3. (SBU) All three U.S. carriers expressed discontent with CAA's regulatory behavior. American Airlines is the most vocal, stating Colombia is the most regulated airline market in Latin America. CAA's regulatory behavior affects airline fares for internet programs, gate access, routes, and negotiations between private entities, such as travel agencies and airlines (Ref B). Continental privately voiced concerns with CAA's response time to Continental's official complaints, pointing to one example where CAA responded to a complaint only after the event was a non-issue. Continental and Delta publicly state, however, they have good relations with CAA. The airlines did note that CAA was helpful with security and airport operations.

ANATO's Influence

[1](#)4. (SBU) ANATO, the Colombian travel agency association, has far greater influence with CAA than Colombia's airlines associations, ALATICO and ATAC, because of strong relations (and some business ties) with the Colombian Congress and the travel agency industry's support for political campaigns. ANATO's influence in CAA policy is readily seen in the rules regulating internet tickets for airlines (long delays in processing the requests) and in the newly created four percent administrative fee for travel agents (Ref B). ANATO's fight to survive in an era of internet tickets and reduced commissions for travel agencies is clearly demonstrated in an email, recently made public by American Airlines. American's Station Manager in Colombia said the email, authored by the VP of ANATO, stated ANATO members should divert their sales principally towards Avianca and Delta because of Avianca's support for ANATO and American's lobbying efforts to lower travel agent commissions. American Airlines has filed a lawsuit against ANATO as a result of the communication.

Concern Over Avianca's Sale

[1](#)5. (SBU) Avianca has been in Chapter 11 proceedings since March 21, 2003 (Ref A). Avianca chose to pursue bankruptcy protection in the U.S. because U.S. laws are more lenient and less political than existing Colombian laws. Avianca's goal was to search for a buyer that would absorb its debt, currently over USD 300 million, inject capital to the

cash-strapped company, and install a better management team. By April 2004, Avianca had two bidders, the Brazilian company Synergy and Continental-Copa. According to American Airlines' Station Manager in Colombia, Avianca chose Synergy mainly because Avianca felt that Continental-Copa would eventually absorb all of Avianca's operations and eliminate Avianca altogether. Continental's Station Manager in Colombia stated that the Avianca-Synergy deal is worrisome to the Colombian aviation industry because Synergy has no real experience in operating a major international airline and fears that future Avianca-Synergy troubles may cause a price-war, where all airlines will lose out (however, CAA sets minimum and maximum price limits for the airline industry). On 24 August, a New York Bankruptcy Court Judge said Avianca's restructuring plan, featuring a purchase by Synergy (which runs a successful regional airline in Brazil), complied with the U.S. Bankruptcy Code. This crucial passage allows Avianca to release the plan to its creditors on 3 September. The confirmation hearing will occur on 14 October and Synergy hopes Avianca will exit Chapter 11 by the end of the year. The judge granted 60 days for Avianca to obtain the necessary votes from the creditors to approve the restructuring plan.

16. (SBU) Comment. The CAA's efforts to protect Avianca and ANATO are due to the political influence of both entities. The CAA has repeatedly refused Open Skies negotiations for fear that entering U.S. carriers would undermine Avianca's chances of survival. In addition, it has not challenged even the most self-serving requests from ANATO. Rumors in the aviation community suggest that CAA's director Velez has political aspirations (hoping possibly to follow in the footsteps of another former CAA director, President Uribe) and therefore does not want to burn any bridges with Congress nor ANATO. End Comment.
DRUCKER